

VZCZCXRO9396
RR RUEHMA RUEHPA
DE RUEHMA #0999/01 3401154
ZNR UUUUU ZZH
R 051154Z DEC 08
FM AMEMBASSY MONROVIA
TO RUEHC/SECSTATE WASHDC 0585
INFO RUEHZK/ECOWAS COLLECTIVE
RUEATRA/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 03 MONROVIA 000999

SENSITIVE
SIPDIS

E.O.12958: N/A

TAGS: [EFIN](#) [PGOV](#) [ETRD](#) [EAID](#) [EINV](#) [ECON](#) [LI](#)

SUBJECT: LIBERIA: GLOBAL FINANCIAL CRISIS MAY PRESENT
OPPORTUNITIES

11. (U) SUMMARY: President Ellen Johnson Sirleaf and her new economic management team hosted a well-attended roundtable discussion on the impact of the global financial crisis on Liberia. Although Liberia's economic isolation and lack of debt service requirements buffer the economy, the GOL expects foreign assistance, investment, and remittances to drop. Lower commodity prices will harm exports such as rubber but on balance cheaper food and fuel imports should benefit most Liberians. The weaker economic outlook abroad may encourage "reverse brain drain." The President highlighted revising the tax regime, accelerating expenditures that reduce poverty, improving competitiveness and infrastructure, and reducing corruption as steps that could mitigate the expected drop in revenue. She summed up the discussion by saying the financial crisis could be a time of opportunity in which Liberia can position itself to take advantage of the eventual economic upturn. END
SUMMARY

12. (U) President Sirleaf convened a roundtable discussion on the impact of the global financial crisis on November 19. After presentations by members of her new economic management team, other participants, who included legislators, bankers, importers and some members of the international community, traded views on the impact of the economic slowdown and possible next steps for Liberia. There was consensus that, although there are risks, the overall outlook is positive and Liberia's economy will suffer less than most.

Financial Sector: more robust

13. (U) Governor of the Central Bank of Liberia (CBL) Mills Jones said the CBL has improved bank supervision and increased capitalization in recent years. Inflation peaked in August, and had retreated to near 18% by the end of October. He suggested there is room for government fiscal intervention, and in subsequent comments the roundtable participants supported accelerated GOL disbursement, with a renewed focus on spending that will assist the most vulnerable.

14. (U) The President of the Liberian Bankers' Association reported banks are concerned about the length of the crisis and its depth, both unknowable, and feel it is prudent to prepare for the long haul. (Comment: He gave no specifics, but clearly felt the roundtable discussion was a step in the right direction. End comment.) Private sector investment will drop and public sector (donor) support, although already committed, may slow. New demands on the IMF (by non-traditional borrowers) may crowd out Liberia. However, overall the banks do not see immediate cause for concern.

Commodity Prices: a net positive?

15. (U) Deputy Minister of Commerce and Industry Frederick Norkeh said the benefit of lower prices on imported food and fuel will probably outweigh the costs of lower export prices. The drop in fuel prices, from \$143 to \$73/barrel, has made a tremendous difference but the GOL needs to continue removing trade barriers and needs a strategy to mitigate cyclical price swings. He raised the need to establish reserves of essential commodities to help mitigate

price fluctuations.

¶6. (U) Foreign importers noted merchandise is not moving off the shelves, so even if prices on the world market drop, Liberian merchants are selling goods purchased at the more expensive rates. They called for letting market forces determine prices. (Note: The GOL monitors and sets price ceilings for "strategic" commodities such as rice, petroleum, and cement. End note.) Credit lines have closed down, so it may become more difficult to finance imports. The GOL should facilitate the customs clearance process and permit businesses pay income and other taxes periodically, rather than in one lump sum. The exchange rate fluctuates every December and the CBL should take more effective steps to stabilize it. (Comment: The end-of-year fluctuations are probably due to increased volatility of remittance flows and consumption around Christmas. End comment.) Another importer worried that with remittances down and exports almost non-existent, there would be inadequate foreign exchange for imports the first half of next year. The CBL governor responded that they have been rebuilding foreign exchange reserves and have enough cover imports and stabilize the exchange rate. The CBL has increased foreign exchange reserves and plans use them as necessary.

Investment and Remittances: likely to drop

¶7. (U) National Investment Commission (NIC) Chair Richard Tolbert said investment is booming (see chart after para 9). Liberia's largest foreign investor, Mittal Steel, has said it plans to proceed with investment plans for Liberia. However, the drop in iron ore prices will reduce Mittal's revenues and thus GOL royalties.

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¶8. (U) The delay in concluding concession agreements has hurt Liberia, especially in oil palm negotiations. Investors are cutting back or delaying proposed investment as oil prices drop, and are negotiating harder. The decline in the U.S. auto sector is expected to affect rubber prices and the drop in U.S. housing starts will affect tropical timber. (Note: Liberia has not yet resumed commercial export of timber, but expects to in 2009. End note.) Tolbert said the GOL may have to reduce land rental fees, stumpage fees, and taxes to compete and noted it could become more difficult to secure financing for investments in energy, the port and other large infrastructure projects.

¶9. (U) The crisis, he said, shows the importance of dealing with strong companies and the need for the GOL to conduct better due-diligence on investors. The President has called on them to speed up negotiations and to be more flexible on labor-intensive investments. They should consider corporate tax holidays, especially on agricultural investment, and could expand reductions in the corporate tax rate for investment that create jobs. Easier entry for business travelers, such as airport visas, might help. They plan to target sovereign wealth funds and expand South-South cooperation, especially with Brazil, India, China and Nigeria. The NIC's 2008 investment target is \$100 million, and Tolbert expects total new investment to easily exceed that goal, even if large mining investment is excluded.

New investment facilitated by the NIC

Year	Amount
2005	\$20 million (excluding Mittal)
2006	\$50 million
2007	\$97 million
2008	\$75 million (ytd)

¶10. (U) Tolbert warned Liberia should expect the \$150 million a year in remittances to decline, a view endorsed by other participants, but reverse brain drain may pick up as economies and Europe and the United States slow. The Bankers' Association noted that thus far remittances are in line with seasonal patterns but banks will continue to monitor them closely.

Aid/Philanthropy: more competition

¶11. (U) Deputy Minister of Planning and Economic Affairs Sebastian Muah noted the GOL may have to re-prioritize the Poverty Reduction Strategy as competition for assistance funding becomes stiffer. The GOL Aid Strategy paper is out for review and MPEA is planning to better track NGO activity.

Macro overview: protect the vulnerable

¶12. (U) The IMF Resident Representative provided an overview of Liberia's macroeconomic outlook, saying there are not major risks. He confirmed that although Liberia's anticipated GDP growth rate in 2008 has been revised down to 7%, the IMF still anticipates over 12% GDP growth in 2009 as mining and timber exports increase. (Note: The GOL estimated that a 1% change in GDP leads to a \$15 million change in tax revenue. End note) Although GOL revenues will probably decline, lower prices for many GOL purchases should keep expenditures in check. Liberia's reliance on U.S. dollars helps maintain a stable exchange rate. (Note: More detail is available in the December 4 Staff Report for the 2008 Article IV consultation. End note.)

¶13. (U) The World Bank Country Director noted that during recent meetings in Tunis and Washington, Liberia stood out as one country that is already thinking about the problems. (Note: In a more detailed written analysis, the WB summarized the opportunities and vulnerabilities facing Liberia. Noting many of the factors covered in the roundtable, the WB stressed the need to protect the vulnerable and continue reforms, including progress on meeting deliverables of the Poverty Reduction Strategy. End note.)

¶14. (U) The head of the Governance Commission expanded on that point, noting the crisis is coming while Liberia is in the process of reforming institutions. The GOL needs better coordination and can legitimize the reform agenda, and the tough choices that need to be made, by consulting the public. The head of the new Anti-Corruption Commission stressed that one cause of the crisis is financial malfeasance.

¶15. (U) The Minister of Finance, in his closing remarks, said the GOL is monitoring the domestic situation and does not see cause to be precipitously worried. He and the President, referring to the recent flurry of press reports on financial scandals, said there are more reports on corruption because it is being dealt with, which is

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good news. He said the Ministry of Finance plans to introduce surveys regarding public perception of tax and customs officials so they can pinpoint problem areas. (Comment: There has been a surge in press reporting on corruption allegations, driven in part by release of the first reports by the General Audit Commission and in part by changes in procedures and personnel made at the Ministry of Finance and other agencies. End comment)

¶16. (U) In her closing remarks, President Sirleaf said the global crisis affords an opportunity to re-examine policies and she refuses to believe there are limits on Liberia's growth. She proposed a follow-on discussion during which the GOL would report its progress on activities suggested at this meeting and solicit ideas on further steps. She encouraged citizens to lead discussions of their own and identified the major topics of concern as:

- The impact on the poor, especially employment;
- The need to support expenditure and tax incentives that boost employment and food production;
- The lack of GOL coordination and serious capacity limits on efficiency and effectiveness;
- "Malpractices" (corruption);
- The lack of adequate data.

¶117. (SBU) Comment: The roundtable discussion is a promising sign that coordination is improving among GOL economic agencies and that the need for public outreach is finally being institutionalized. Econoff spoke with legislators, business people and bankers who found the lengthy event valuable and welcomed the plan to hold similar discussions in the future. The GOL has influence over only one element of the financial crisis: the investment climate, including control of corruption. We should continue to support reforms that favor investors and entrepreneurs. End comment.

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